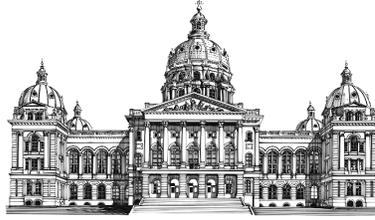

Iowa Legislative Services Agency

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State Capitol
Des Moines, IA 50319
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Iowa Finance Authority

ISSUE

This *Issue Review* provides a summary of the history, purpose, and finances of the Iowa Finance Authority (IFA).

AFFECTED AGENCIES

Iowa Finance Authority

CODE AUTHORITY

Chapter 16, Code of Iowa

Sections 7C.12, 7E.7(1), 12.30, 15.281 to 15.288, 34A.2 to 34A.22, 68B.35, and 260C.71 to 260C.73, Code of Iowa

BACKGROUND

The Iowa Housing Finance Authority was created in 1975 and renamed the Iowa Finance Authority (IFA) in 1985. The original mission of the Authority was to undertake programs that assist in the attainment of qualified housing by encouraging the investment of private capital and stimulating the construction and rehabilitation of adequate housing through the use of public financing.

Since its creation, the Authority's responsibilities have been expanded through statute. In addition to administering programs that address housing needs, the Authority also issues tax exempt bonds to finance various infrastructure projects and economic development activities. The Authority's Title Guaranty Division was established in 1985 as the State mechanism for guaranteeing title to real property.

The powers of the Authority are vested in a nine-member Board. The Title Guaranty Division has a separate five-member Advisory Board. Members of both Boards are appointed to staggered six-year terms. The Authority has an Executive Director that is appointed by the Governor and confirmed by the Senate. The obligations of the Authority are payable only

from specific revenues or assets pledged and do not constitute general obligations of the State.

Below is a brief description of Programs administered by the IFA. In September 2004, Standard & Poor's Rating Services assigned its "AA-" issuer credit rating (ICR) to the Authority, which places the Authority among the highest of rated State housing finance agencies.

Iowa Finance Authority Programs

- **FirstHome Program** provides mortgage financing to low- and moderate-income first-time homebuyers through more than 400 participating Iowa lenders. In FY 2004, more than \$127.0 million was loaned to 1,810 borrowers. The average home purchase price was \$73,367, and the average income of the homebuyer was \$36,028. The Authority issues tax-exempt mortgage revenue bonds to fund the Program.
- **FirstHome Plus Program** provides grants of up to \$2,500 to assist qualified FirstHome borrowers with down payment and closing costs. The Program is funded with surplus revenue from the Title Guaranty Division. In FY 2004, \$2.1 million was granted to 1,468 families.
- **Low-Income Housing Tax Credit Program** provides federal tax credits to developers that sell the credits to investors to generate equity for the construction or rehabilitation of affordable rental housing. The Authority competitively awards tax credits each year. During 2004, over \$66.0 million in credits were awarded to 20 projects in 13 cities. Since the Program began in 1987, the Authority has provided tax credits for approximately 15,000 affordable rental units across Iowa.
- **Multifamily Preservation Loan Program** provides low-interest loans to non-profit and for-profit housing developers to preserve existing affordable rental units at risk of being lost due to physical deterioration or the need for financial restructuring. Since the Program began in May 2002, the Authority has awarded \$9.7 million to preserve 479 affordable rental units in Iowa.
- **Housing Assistance Fund** is a flexible program providing grants and loans for a variety of affordable housing activities, including capacity-building grants for non-profit housing development organizations, grants for transitional housing projects, Habitat for Humanity self-help mortgage loans, and grants for college internship programs at nonprofit housing development organizations. In FY 2004, the Authority awarded grants totaling \$820,000 to eight non-profit affordable housing organizations.
- **Single Family Construction Loan Program** provides low-interest construction loans to eligible non-profit and for-profit housing developers for new construction or acquisition/rehabilitation of affordable, owner-occupied, single-family homes.
- **Main Street Mortgage Loan Program** provides low-interest loans to Iowa Main Street communities for downtown infill and upper story rehabilitation. Since 2003, the Authority has loaned approximately \$2.0 million to seven projects.
- **State Housing Trust Fund** is held at the Authority, with 60.0% of available funds allocated to Local Housing Trust Funds and 40.0% allocated to Project-Based Housing Programs. In 2004, \$1.2 million was awarded to nine local housing trust funds and \$550,000 was awarded to three project-based programs.
- **Rent Subsidy Program** provides monthly rent assistance payments to persons that receive services under a federal Medicaid home and community-based services waiver program and who are at risk of nursing facility placement. The Authority operated the Program pursuant to a 28E agreement with the Department of Human Services in 2004.
- **Senior Living Revolving Loan Program** will provide low-cost gap financing for affordable assisted living and service-enriched housing for seniors and people with disabilities. The Program was created in FY 2005 with a \$5.0 million appropriation from the Senior Living Trust Fund.
- **Senior Living Home and Community-Based Services Revolving Loan Program** will provide low-cost loans to fund infrastructure for affordable home and community-based services, such as adult day care, respite services, and congregate meals. The Program was created in FY 2005 with a \$2.0 million appropriation from the Senior Living Trust Fund.
- **Multifamily and Institutional Energy Efficiency Improvements Program** is a demonstration project with the Iowa Utilities Board to fund energy improvements in affordable rental housing projects and homeless shelters.

- **Iowa Homeless Council** is operated out of the Authority and serves as the coordination point for all of the State's homelessness programs pursuant to Executive Order 33.
- **Federal Housing Programs.** The Authority operates several Federal Housing Programs and actively pursues federal grants for specific housing purposes. Over the years, the IFA has administered millions of dollars in funding from the U.S. Department of Housing and Urban Development (HUD). Current federal grants in operation include HUD's Housing Opportunities for Persons with AIDS/HIV, U.S. Department of Education funding for assistive technology, including home modification for people with disabilities, and a U.S. Department of Agriculture (USDA) Rural Community Development Initiative grant to promote affordable assisted living. The Authority also holds a performance-based contract with HUD to provide oversight of 245 Section 8 Program rental properties that house 12,202 low-income Iowans.
- **Title Guaranty Program** is a self-sustaining mechanism to guarantee real property titles. The Program facilitates mortgage lender participation in the secondary market and adds to the integrity of the land title transfer system. The Authority establishes and collects premiums for the guarantees and procures reinsurance against each guarantee in excess of \$100,000. The premiums charged are sufficient to permit the Program to pay all administrative costs, maintain an adequate reserve against claims, and provide additional funding for housing programs. In FY 2004, Title Guaranty had a record year with approximately \$7.0 million in gross premiums on 62,000 policies. Since the Program began, more than \$31.0 million in Title Guaranty Division profits have been invested in affordable housing throughout the State, leveraging several million dollars in private and other funding.
- **Mortgage Release Program** ensures the proper release of mortgage loans by lenders after payoff. Through the Program, operated by the Title Guaranty Division, title problems are cleared, enabling sales transactions and financing to proceed.
- **Economic Development Loan Program** furthers the development and expansion of industry, non-profit organizations, and multi-family housing within Iowa. The Authority serves as a conduit issuer of tax-exempt bonds. The bond proceeds are loaned to borrowers to finance qualified projects. The bonds are limited obligations of the Authority, payable solely from the revenue of the borrower. The Authority is authorized to issue bonds for industrial expansion, health care facilities, higher education, waste recovery facilities, and multi-families housing.
- Executive Director of the Authority allocates **Private Activity Bond Cap** to certain private activity bonds set forth in Section 146 of the Internal Revenue Code of 1986, as amended.
- **State Revolving Fund Program** provides low-cost loans for infrastructure projects related to clean water and drinking water. The Authority operates the Program in partnership with the Department of Natural Resources. The Program is funded through capitalization grants from the U.S. Environmental Protection Agency, proceeds of bonds issued by the Authority, and loan repayments. Interest paid on State Revolving Fund bonds is tax-exempt from both federal and state income tax.

The Authority has been used by the State as a conduit financing tool for various State projects, including the Underground Storage Tank Program, the Iowa Communications Network, and prison construction (Ft. Dodge and Newton).

Iowa Finance Authority Funding

The Authority receives no General Fund appropriation for operating expenses and does not have the ability to tax. The major funding sources for the Authority are bond proceeds, title guaranty fees, application fees, and interest earnings.

One result of the S&P rating process is that the Authority has formatted the FY 2004 financials to encompass those programs and activities consistent with a "Housing Agency" and those resulting from the "State Revolving Fund" (SRF) programs. **Attachments A, B, and C** show balance sheet and income statements for FY 2004 reflecting the change.

As a result of housing program activities, the Authority had more than \$500.0 million in debt outstanding as of June 30, 2004, with about 90.0% rated "AAA" based on the strength of the assets under the Authority's single-family resolution secured by mortgage-backed securities. All single-

family bonds issued since 1991 have been issued under this single-family resolution. The Authority also has about \$22.0 million in debt outstanding under two multifamily indentures with ratings of "AA" and "AAA."

The **State Revolving Fund (SRF) Programs**, in particular, Clean Water and Drinking Water, had about \$260.0 million in combined outstanding debt as of June 30, 2004. The bonds are rated "AAA" from Standard & Poor's, Moody's Investors Service, and Fitch Ratings. Iowa was the first state to issue SRF bonds in 1987. As of June 30, 2004, there were 277 loans to Iowa communities for Clean Water infrastructure needs with a principal balance of \$241.0 million outstanding. For Drinking Water infrastructure, as of June 30, 2004, there were 94 loans totaling \$108.0 million outstanding.

Housing Program Fund monies are to be used to cover the initial commitment costs of Authority bond issues and to support programs for homeless shelters, home maintenance and repair, low-income rental housing rehabilitation, and low-income home ownership incentives.

Title Guaranty Fund monies are to be used to pay all claims, necessary reserves, and all administrative costs of the Title Guaranty Program. Excess funds are transferred to the Housing Program Fund.

Housing Improvement Fund monies are to be allocated by the Authority to the same Programs funded by the Housing Program Fund, plus the housing category of the Rural Community 2000 Program.

Powers of the Authority

Statute grants the Authority a broad range of general powers, similar to a corporation, then places specific limitations to assure public accountability. The Authority's mission is outlined in Chapter 16, Code of Iowa. To fulfill its mission through the use of borrowed money, the Authority has powers and exemptions not typical of a State agency. See a listing of these in **Attachment D**.

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IOWA FINANCE AUTHORITY

Summary Financial Statements

Year ended June 30, 2004

(Dollars in thousands)

	Housing Agency					State Revolving Funds					IFA Consolidated				
	2004	2003	2002	2001	2000	2004	2003	2002	2001	2000	2004	2003	2002	2001	2000
Statement of Revenues and Expenses															
Operating revenues															
Interest income	31,206	31,123	28,544	27,397	24,942	19,279	18,831	20,789	22,002	20,954	50,485	49,954	49,333	49,399	45,896
Net increase (decrease) in fair value of investments and mortgage backed securities	(17,474)	14,090	6,609	8,197	(4,043)	(3)	-	-	-	-	(17,477)	14,090	6,609	8,197	(4,043)
Fee income	10,693	9,198	8,956	6,097	4,962	885	578	368	280	276	11,578	9,776	9,324	6,377	5,238
Grant income	1,723	824	1,047	854	1,427	55,888	48,359	36,481	23,855	20,741	57,611	49,183	37,528	24,709	22,168
Provision for losses	313	(818)	(315)	(812)	(613)	-	-	-	-	-	313	(818)	(315)	(812)	(613)
Other income	1,141	16	9	3	-	-	-	-	-	-	1,141	16	9	3	-
Total operating revenues	27,602	54,433	44,850	41,736	26,675	76,049	67,768	57,638	46,137	41,971	103,651	122,201	102,488	87,873	68,646
Operating expenses:															
Interest on bonds	24,647	23,803	20,993	19,504	17,541	12,904	12,341	13,387	12,747	12,977	37,551	36,144	34,380	32,251	30,518
General and administrative	8,875	6,956	5,960	5,712	3,541	2,152	2,041	1,617	1,510	1,653	11,027	8,997	7,577	7,222	5,194
Grants and aid	6,949	3,747	6,774	8,547	4,647	-	-	-	-	-	6,949	3,747	6,774	8,547	4,647
Total operating expenses	40,471	34,506	33,727	33,763	25,729	15,056	14,382	15,004	14,257	14,630	55,527	48,888	48,731	48,020	40,359
Operating income (loss)	(12,869)	19,927	11,123	7,973	946	60,993	53,386	42,634	31,880	27,341	48,124	73,313	53,757	39,853	28,287
Nonoperating revenues (expenses):															
Assets received from Iowa Housing Corporation	50	190	5,034	-	-	-	-	-	-	-	50	190	5,034	-	-
Change in net assets	(12,819)	20,117	16,157	7,973	946	60,993	53,386	42,634	31,880	27,341	48,174	73,503	58,791	39,853	28,287
Balance Sheet															
Assets (substantially restricted)															
Cash, cash equivalents, and investments	249,772	277,385	233,185	200,535	219,083	307,966	319,126	259,288	245,941	245,386	557,738	596,511	492,473	446,476	464,469
Mortgage backed securities	403,360	377,627	306,675	213,881	157,021	-	-	-	-	-	403,360	377,627	306,675	213,881	157,021
Loans to municipalities and water systems	-	-	-	-	-	350,137	291,674	259,547	223,812	190,618	350,137	291,674	259,547	223,812	190,618
Other Loans	28,837	29,006	27,237	33,218	38,961	-	-	-	-	-	28,837	29,006	27,237	33,218	38,961
Other assets	5,718	6,093	4,982	4,552	3,949	3,796	4,754	4,947	3,589	3,564	9,514	10,847	9,929	8,141	7,513
Total Assets	687,687	690,111	572,079	452,186	419,014	661,899	615,554	523,782	473,342	439,568	1,349,586	1,305,665	1,095,861	925,528	858,582
Liabilities															
Bond & notes payable	521,005	509,616	414,019	315,660	293,635	258,344	272,034	233,057	229,299	228,694	779,349	781,650	647,076	544,959	522,329
Other Liabilities	26,113	27,108	24,789	22,112	18,938	12,614	13,571	14,162	10,113	8,825	38,727	40,679	38,951	32,225	27,763
Total Liabilities	547,118	536,724	438,808	337,772	312,573	270,958	285,605	247,219	239,412	237,519	818,076	822,329	686,027	577,184	550,092
Net Assets															
Restricted	100,366	117,162	87,186	80,131	72,715	390,941	329,949	276,563	233,930	202,049	491,307	447,111	363,749	314,061	274,764
Unrestricted	40,203	36,225	46,085	34,283	33,726	-	-	-	-	-	40,203	36,225	46,085	34,283	33,726
Total net assets	140,569	153,387	133,271	114,414	106,441	390,941	329,949	276,563	233,930	202,049	531,510	483,336	409,834	348,344	308,490

IOWA FINANCE AUTHORITY

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2004

	General Fund	Housing Agency					State Revolving Funds			Consolidated		
		Single Family Programs	Multi Family Programs	Housing Assistance Programs	Title Guaranty Division	Eliminations	Total Housing Agency	Clean Water Programs	Drinking Water Programs	Total	IFA Totals	
(Dollars in thousands)												
Operating revenues (in thousands)												
Interest income	\$ 1,697	26,660	2,689	160	-	-	31,206	13,769	5,510	19,279	50,485	
Net increase (decrease) in fair value of investments and mortgage backed securities	(759)	(14,648)	(1,948)	(119)	-	-	(17,474)	(3)	-	(3)	(17,477)	
Fee income	4,509	605	-	-	6,733	(1,154)	10,693	583	302	885	11,578	
Grant income	95	-	-	1,628	-	-	1,723	33,494	22,394	55,888	57,611	
Provision for losses	(59)	-	-	986	(614)	-	313	-	-	-	313	
Other income	239	-	-	902	-	-	1,141	-	-	-	1,141	
Total operating revenues	5,722	12,617	741	3,557	6,119	(1,154)	27,602	47,843	28,206	76,049	103,651	
Operating expenses:												
Interest on bonds	7	23,272	1,357	11	-	-	24,647	8,027	4,877	12,904	37,551	
Authority fees	-	1,150	4	-	-	(1,154)	-	-	-	-	-	
General and administrative	6,339	299	11	573	1,653	-	8,875	1,297	855	2,152	11,027	
Grants and aid	8	-	-	6,941	-	-	6,949	-	-	-	6,949	
Total operating expenses	6,354	24,721	1,372	7,525	1,653	(1,154)	40,471	9,324	5,732	15,056	55,527	
Operating income (loss)	(632)	(12,104)	(631)	(3,968)	4,466	-	(12,869)	38,519	22,474	60,993	48,124	
Nonoperating revenues (expenses):												
Assets received from Iowa Housing Corporation	-	-	-	50	-	-	50	-	-	-	50	
Income before transfers	(632)	(12,104)	(631)	(3,918)	4,466	-	(12,819)	38,519	22,474	60,993	48,174	
Interfund transfers, net	(7,525)	3,911	4,260	4,254	(4,900)	-	-	-	-	-	-	
Change in net assets	(8,157)	(8,193)	3,629	336	(434)	-	(12,819)	38,519	22,474	60,993	48,174	
Net assets at June 30, 2003	48,771	64,542	18,580	19,629	1,866	-	153,388	252,496	77,453	329,949	483,337	
Net assets at June 30, 2004	\$ 40,614	56,349	22,209	19,965	1,432	-	140,569	291,015	99,927	390,942	531,511	

IOWA FINANCE AUTHORITY
Statement of Net Assets
As of June 30, 2004

	Housing Agency					State Revolving Fund			Consolidated		
	General Fund	Single Family Programs	Multi Family Programs	Housing Assistance Programs	Title Guaranty Division	Eliminations	Total Housing Agency	Clean Water Programs	Drinking Water Programs	Total	IFA Totals
Assets											
(Dollars in thousands)											
Current assets (substantially restricted, see notes):											
Cash and cash equivalents	\$ 4,779	164,711	12,528	10,114	5,612	-	197,744	165,353	102,631	267,984	465,728
Investments:											
Other Investments	8,516	997	1,110	-	-	-	10,623	39,983	-	39,983	50,606
Mortgage-backed securities	88	6,384	-	-	-	-	6,472	-	-	-	6,472
Total current investments	8,604	7,381	1,110	-	-	-	17,095	39,983	-	39,983	57,078
Loans to municipalities or water systems											
Other loans, net	73	1,024	271	584	-	-	1,952	-	-	-	1,952
Accrued interest receivable	238	3,066	468	80	-	-	3,852	2,427	1,473	3,900	7,752
Other assets	822	7	2	301	(43)	-	1,089	(87)	(18)	(105)	984
Total current assets	14,516	176,189	14,379	11,079	5,569	-	221,732	221,896	109,341	331,237	552,969
Noncurrent assets (substantially restricted, see notes):											
Investments:											
Other Investments	21,628	-	19,778	-	-	-	41,406	-	-	-	41,406
Mortgage-backed securities	4,558	392,330	-	-	-	-	396,888	-	-	-	396,888
Total noncurrent investments	26,186	392,330	19,778	-	-	-	438,294	-	-	-	438,294
Loans to municipalities or water systems											
Other loans, net	1,770	5,384	9,328	10,403	-	-	26,885	-	-	-	26,885
Capital assets, net of accumulated depreciation	528	-	-	248	-	-	776	-	-	-	776
Total noncurrent assets	28,484	397,714	29,106	10,403	248	-	465,955	227,370	103,292	330,662	796,617
Total assets	43,000	573,903	43,485	21,482	5,817	-	687,687	449,266	212,633	661,899	1,349,586
Liabilities											
Current liabilities:											
Bonds payable, net	-	42,900	784	-	-	-	43,684	12,698	3,170	15,868	59,552
Accrued interest payable	-	10,625	344	-	-	-	10,969	3,239	2,049	5,288	16,257
Accounts payable and accrued liabilities	1,080	365	56	1,059	164	-	2,724	223	129	352	3,076
Rebates owed	-	5,359	-	-	-	-	5,359	-	-	-	5,359
Deferred income	127	299	-	-	-	-	426	184	74	258	684
Total current liabilities	1,207	59,548	1,184	1,059	164	-	63,162	16,344	5,422	21,766	84,928
Noncurrent liabilities:											
Bonds payable, net	-	457,229	20,092	-	-	-	477,321	138,509	103,966	242,475	719,796
Reserves for Title Guaranty Division claims	-	-	-	-	4,221	-	4,221	-	-	-	4,221
Rebates owed	-	89	-	-	-	-	89	1,025	2,049	3,074	3,163
Deferred income	1,179	688	-	-	-	-	1,867	2,373	1,269	3,642	5,509
Deferred grants & aid	-	-	-	458	-	-	458	-	-	-	458
Total noncurrent liabilities	1,179	458,006	20,092	458	4,221	-	483,956	141,907	107,284	249,191	733,147
Total liabilities	2,386	517,554	21,276	1,517	4,385	-	547,118	158,251	112,706	270,957	818,075
Net Assets											
Invested in capital assets, net of related debt	528	-	-	-	248	-	776	-	-	-	776
Restricted net assets:											
Per bond resolutions	-	54,558	21,497	-	-	-	76,055	133,062	52,497	185,559	261,614
Per legislation	-	-	-	18,448	1,184	-	19,632	-	-	-	19,632
Per other agreements	2,386	-	-	1,517	-	-	3,903	157,953	47,430	205,383	209,286
Total restricted net assets	2,914	54,558	21,497	19,965	1,432	-	100,366	291,015	99,927	390,942	491,308
Unrestricted net assets	37,700	1,791	712	-	-	-	40,203	-	-	-	40,203
Total net assets	\$ 40,614	56,349	22,209	19,965	1,432	-	140,569	291,015	99,927	390,942	531,511

Iowa Finance Authority Powers and Exemptions not Typical of a State Agency

The following Sections are found in the Code of Iowa:

- Section 16.5(9) & 16.31(1) - Permission to retain public funds in private financial institutions, notwithstanding Chapters 12B (Security of the Revenue) and 12C (Deposit of Public Funds).
- Section 16.6(2) - All Iowa Finance Authority employees are exempt from the State Merit System, however, the IFA uses the state classification system and employees are covered by the bargaining agreement.
- Section 16.10 - Permission to transfer all Authority money declared to be surplus funds to other Authority programs.
- Section 16.11 - Permission to combine any Authority program with any other Authority Program or the Iowa Agriculture Development Act.
- Section 16.26(5) - Permission to use any funds remaining after the terms of a bond escrow have been fully satisfied for any lawful purpose.
- Section 16.32 - The Authority Board and persons acting on its behalf are not subject to personal liability resulting from carrying out the powers and duties of Chapter 16.
- Section 16.34 - The provisions of Chapter 16 are to be liberally construed.
- Section 16.36 - Exempts the Authority from competitive bidding requirements for certain purposes.
- Section 16.91(1) - Permits the transfer of excess money from the Title Guaranty Fund to the Housing Program Fund.
- Section 16.177(4)(b) - Exemptions from the requirements of Chapters 73A, 74, 74A, and 75 (relating to public contracts, bonds, obligations, and interest rates), for prison infrastructure bonds.